United Nations A/70/184

General Assembly

Distr.: General
24 July 2015

Original: English

Seventieth session
Item 18 of the provisional agenda*
Macroeconomic policy questions: commodities

World commodity trends and prospects

Report of the Secretary-General

Summary

The present report, prepared by the secretariat of the United Nations Conference on Trade and Development pursuant to General Assembly resolution 68/203, reviews recent developments in key commodity markets and analyses the factors that contributed to fluctuations in commodity prices in 2013 and 2014. Information on the first four months of 2015 is also included where available. Imbalances between supply and demand weighed prices down for most commodities in the agricultural sector, for minerals, ores and metals and the energy markets. For many commodity markets, the general downward pressure is also combined with short-term fluctuations. Those developments have had significant impacts on the economies of commodity-dependent developing countries and on investors and farmers. The present report also explores ways to strengthen coordination between international organizations and other relevant institutions dealing with commodities issues.

* A/70/150.

15-12593 (E) 210815

Please recycle

I. Introduction

1. The present report on world commodity trends and prospects, prepared by the secretariat of the United Nations Conference on Trade and Development (UNCTAD) pursuant to General Assembly resolution 68/203, follows the previous report issued in July 2013 (A/68/204). In it, recent developments in commodity markets focusing on price trends and their determinants are analysed. The three major commodity groups covered in the report are: (a) agricultural commodities — food, tropical beverages, vegetable oilseeds and oils, and agricultural raw materials; (b) minerals, ores and metals; and (c) energy — oil, gas and coal. Although the report focuses on the period 2013-2014, information for the first four months of 2015 is also included, where available.

2. The report also highlights some of the key challenges and opportunities for strengthening coordination between international organizations and other relevant institutions dealing with commodities issues. It emphasizes the progress made since the food crisis of 2007-2008, while stressing the need to improve the framework for international commodities policies. That would imply developing a common vision based on the post-2015 development goals, focusing on the elimination of hunger by 2030, the improvement of the policy environment for adding value to commodities and an improvement in commodities and derivatives markets.

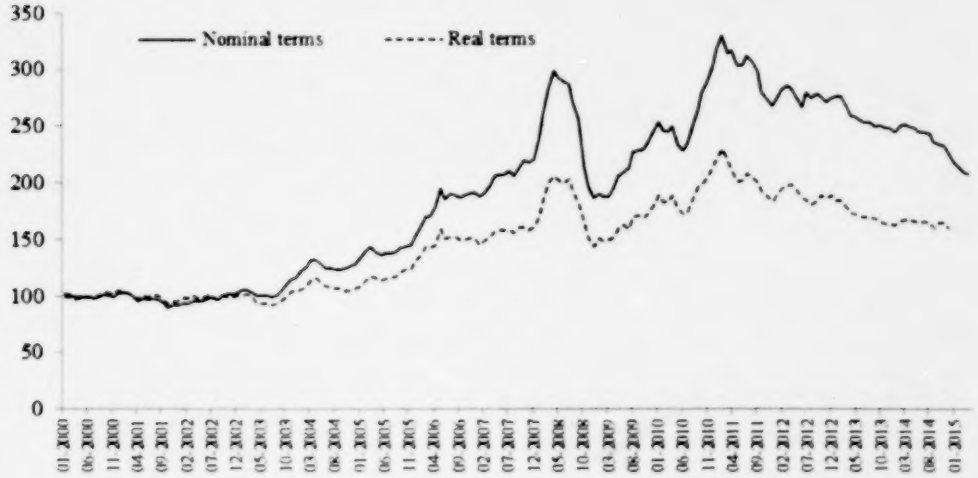
II. Market developments in major commodity groups

A. General overview

3. Global commodity markets have been weakening from the peaks recorded in 2011. The value of the UNCTAD non-oil nominal commodity price index[1] averaged 208 points in April 2015, 37 per cent lower than its peak of 329.5 points in February 2011. In real terms, the index has also decreased significantly, from nearly 230 points in February 2011 to 160 points in December 2014 (see figure I).

[1] The UNCTAD non-oil nominal commodity price index covers the following subgroups of commodities: all food (food, tropical beverages, vegetable oilseeds and oils), agricultural raw materials and minerals, ores and metals.

Figure I
UNCTAD non-oil price index, nominal and real terms (January 2000-April 2015)
(2000=100)



Source: UNCTAD secretariat, based on data from UNCTADstat and the United Nations Statistics Division.

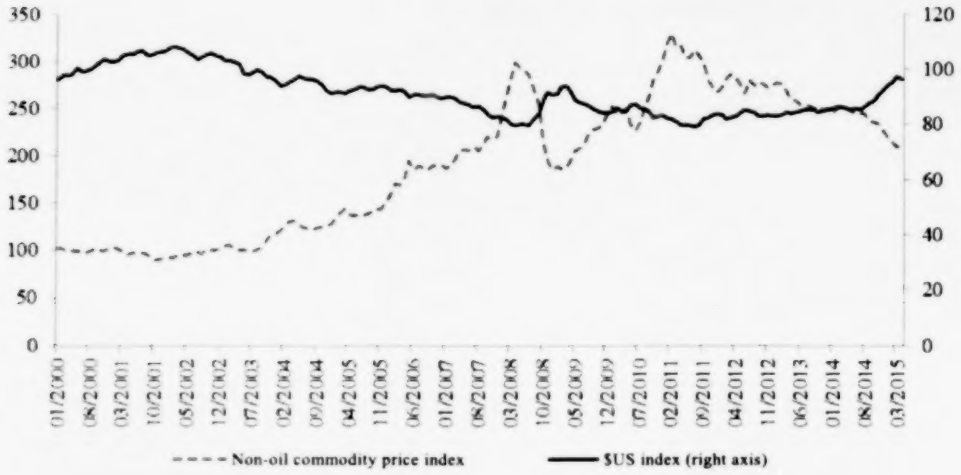
Note: The real price index was obtained by deflating the nominal price index by the unit value index of manufactured goods exported by developed market economy countries (United Nations Statistics Division).

4. Falling commodity prices have been associated with a number of factors, including excess supply; slowing demand from China and the emerging economies; faltering economic recovery in advanced economies such as the European Union; and recently the strengthening of the United States dollar, buoyed by signs of improvement in the economy of the United States of America (see figure II).[2]

[2] The negative relationship between commodity prices and the value of the United States dollar is confirmed by a negative correlation coefficient of 0.93 between the UNCTAD non-oil nominal commodity price index and the United States dollar index over the period January 2000-April 2015.

Figure II
UNCTAD non-oil commodity price index and the United States dollar index January 2000-April 2015

(2000=100)

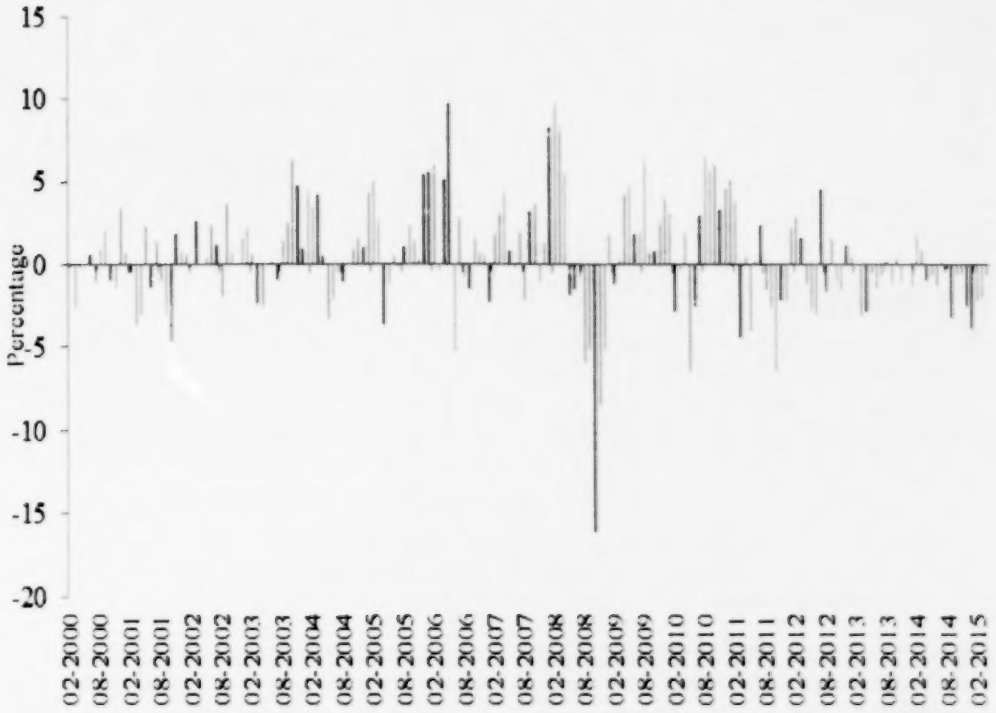


Source: UNCTAD secretariat calculations, based on data from UNCTADstat and the Federal Reserve of the United States.

Note: The United States dollar index refers to the monthly value of the nominal broad dollar index from the database of the Federal Reserve of the United States (accessed on 3 June 2015).

5. Fluctuations in commodity prices have generally narrowed over the last three years (see figure III). That might be partly attributed to a number of initiatives undertaken by the international community following a period of excessive price swings between 2008 and 2011. Some of those initiatives are discussed in section III of the present report.

Figure III
Monthly fluctuations of the UNCTAD non-oil nominal commodity price index
(2000=100)



Source: UNCTAD secretariat calculations based on data from UNCTADstat.
Note: Monthly fluctuations of the price index series p_t (monthly values) are measured by $r_t = (p_t - p_{t-1})/p_{t-1}$.

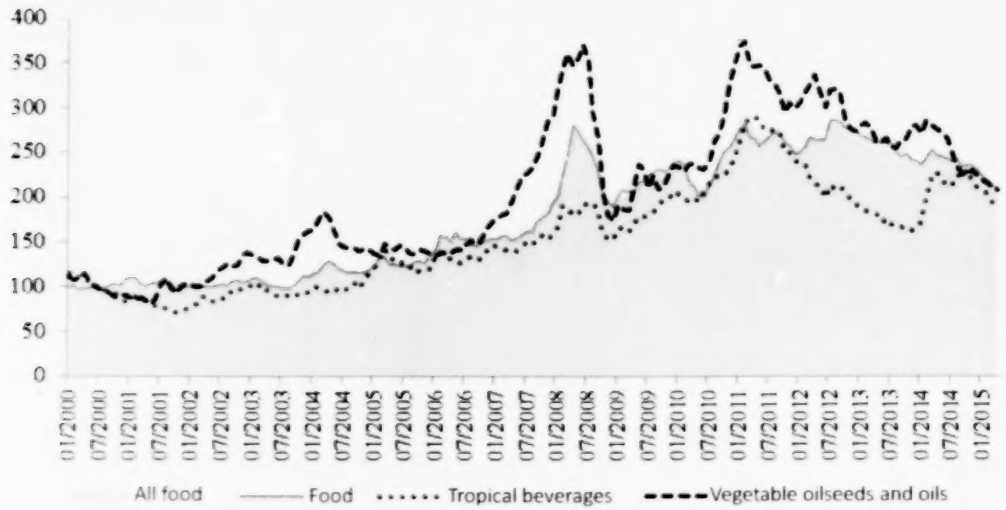
6. Price trends in commodities markets have however differed across individual or groups of commodities. The following section examines the developments in major commodities groups.

B. Agricultural and food commodities

7. In agricultural food markets, a rebound in prices during the summer of 2012 amid dry weather reversed afterwards as weather conditions improved. As a result, agricultural food prices declined, but with short-term upward swings (see figure IV). However, at times, the price trends of individual commodities diverged.

Figure IV
Price indices of selected commodity groups, January 2000-April 2015

(2000=100)



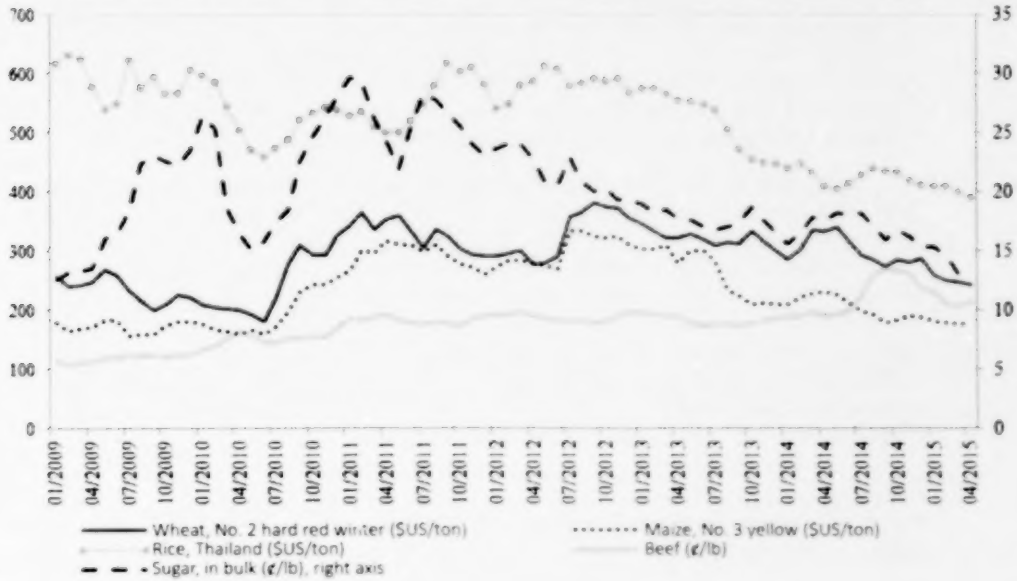
Source: UNCTAD secretariat, based on data from UNCTADstat.
Note: The UNCTAD "all food" price index covers groups of foods, tropical beverages, vegetable oilseeds and oils.

8. In grain markets, prices trended down after the summer of 2012 thanks to good crop conditions which helped to replenish stocks. Grain prices rebounded briefly during the first half of 2014 on weather concerns in the main agrifood producing countries, such as the United States and Brazil, and tensions in the Black Sea region. For example, the price of wheat (Hard Red Winter No. 2) dropped by a quarter, from $382 per ton in September 2012 to $287 in January 2014 and increased to $340 in May 2014. Similarly, the price of Yellow Maize No. 3 decreased from $333 per ton in August 2012 to $210 in January 2014 before it increased again to $231 in April 2014. Thereafter, as harvest conditions improved and helped to boost production, grain prices dropped. In April 2015, wheat and maize prices averaged $244 and $177 per ton respectively, their lowest levels since August 2010.

9. Looking ahead, wheat and maize markets should remain calm, at least throughout the next season, led by continuing good supply conditions, unless adverse weather patterns hit major planting areas. According to the International Grains Council, wheat and maize production for 2014/2015 should reach record levels of 721 and 997 million tons, respectively, which will help to increase existing stocks. Production is expected to weaken slightly for the next season but stocks carried over from the previous years should keep the markets well supplied.[3]

[3] See International Grains Council grain market report No. 455 (28 May 2015).

Figure V
Nominal prices of selected food and agricultural commodities, January 2009-April 2015



Source: UNCTAD secretariat, based on data from UNCTADstat.

10. In rice markets, the price per ton of Thai rice, the Asian benchmark, has trended down since mid-2012, albeit with short-term fluctuations. From an average of $612 per ton in May 2012, the price dropped to $404 in May 2014, thanks to high yields and comfortable stocks. Thereafter, adverse weather conditions in Thailand, coupled with the decision of the country's famers to curb rice planting following the end of the government subsidy programme, contributed to pushing up prices. By August 2014, the average price of Thai rice had increased to $440 per ton. Thereafter, as the Government of Thailand continued to release its stocks, rice prices decreased steadily, falling by 11 per cent from August 2014 to average $392 per ton in April 2015, the lowest level since January 2008. If that price trend persists, growers in major producing countries are likely to switch to more profitable crops, raising concerns about future production. However, current stock levels, estimated at 103 million tons, and good crop conditions should continue to keep rice markets oversupplied in the short and medium term.

11. In sugar markets, prices generally trended downward, starting from 2011, albeit with short term fluctuations. In April 2015, the average price of sugar was 13 cents per pound, the lowest level since January 2009; it corresponds to a 57 per cent decline from the peak of 30 cents per pound in January 2011. Lower sugar prices were mainly due to good harvest conditions, which allowed large global inventories to be built up. The situation was recently exacerbated by the weakening of the Brazilian real against a strong United States dollar, which boosted exports from Brazil, the major exporter. Sliding prices in sugar markets are expected to continue for a while due to an expanding glut. According to the International Sugar Organization, world sugar production in 2015 should exceed demand for the fifth year in a row.

12. In contrast to almost all food and agricultural commodities prices, beef prices rallied for most of 2014, as a result of tight supply induced by drought and high feed costs in the United States, which weighed on global meat production. The price for Australian and New Zealand frozen beef jumped by nearly 45 per cent from 187.5 cents per pound in January to 272 cents per pound in September 2014. Thereafter, increased supplies of substitutes for beef, such as pork and poultry, coupled with signs of weakening demand from emerging countries contributed to lower prices. In April 2015, the average beef price had dropped to 214 cents per pound.

13. In vegetable oilseeds and oils markets, the general downward trend in prices from 2011 was interrupted during the summer of 2012 and the winter of 2013-2014 by adverse weather patterns (see figure VI). Thereafter, improved crop conditions in major oilseed exporting countries including the United States, Brazil, Indonesia and Malaysia helped to boost production, resulting in declining prices. In April 2015, the UNCTAD vegetable oilseeds and oils price index averaged 208 points, 44 per cent down from its peak of 374 points in February 2011. Over the same period, soybean oil and palm oil prices dropped by 45 and 49 per cent respectively. The situation was exacerbated by the slump in crude oil prices that weakened interest for biofuel production, which uses vegetable oils as inputs.

Figure VI

Prices of selected commodities in vegetable oilseeds and oils market, January 2009-April 2015

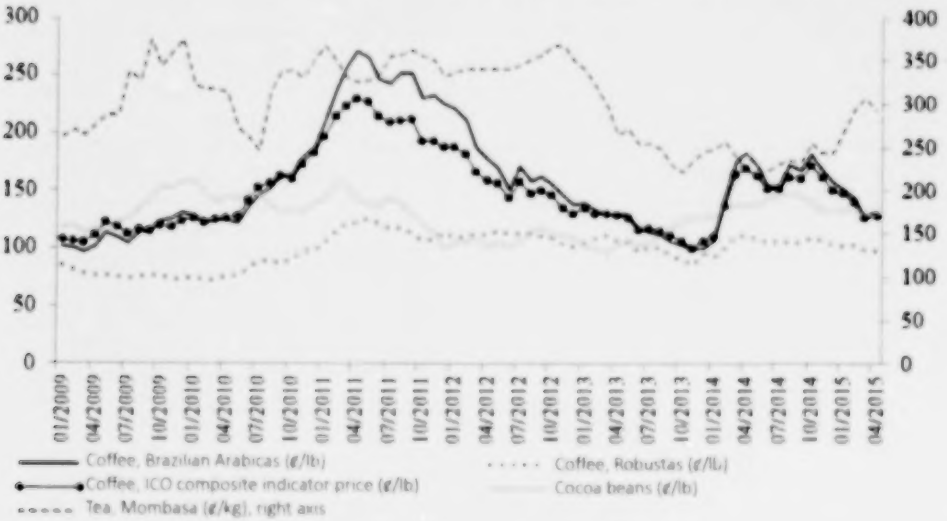
Source: UNCTAD secretariat, based on data from UNCTADstat.

14. In the markets for tropical beverages, prices followed divergent paths from 2013 onwards (see figure VII). In coffee markets, the International Coffee Organization composite indicator price continued to tumble in 2013 from its peak of 231 cents per pound in April 2011. In November 2013, the indicator price reached 101 cents per pound, its lowest level since June 2007. The sustained decline in coffee prices primarily reflected a significant drop in the prices of the Arabica variety, owing to high yields in Brazil, the world's largest producer, and sluggish demand from traditional coffee-consuming countries. However, prices rebounded during the first quarter of 2014, following a severe drought in Brazil. By April 2014, the coffee indicator price had climbed to 171 cents per pound, 69 per cent up from its value in November 2013. Thereafter, the monthly average of the indicator price fluctuated between 152 and 173 cents per pound until October 2014. Thereafter, trends in coffee prices reversed, thanks to a number of factors, such as good harvests in major producing countries including Brazil, Colombia and Viet Nam; strong exports boosted by a weak Brazilian real; and moderate growth in demand. Between October 2014 and April 2015, the indicator price lost nearly a quarter of its value. The situation is likely to remain unchanged, at least throughout 2016, unless significant shocks hit market fundamentals.

15. In cocoa markets, prices recovered from low levels in 2013. From 98 cents per pound in March 2013, the lowest level since November 2008, prices for cocoa beans climbed to 148 cents in August 2014. That rally was primarily due to strong demand from non-traditional consuming areas, such as Asia, and concerns over production following the Ebola outbreak in West Africa. That price increase occurred in a context of well-supplied markets and with global production estimated at a record 4.36 million tons for the 2013/2014 crop season. Good production expected for the following season, a strong United States dollar and a slowdown in cocoa grindings later contributed to decreasing cocoa bean prices. Between August 2014 and April 2015, the monthly value of cocoa beans prices fell by 12 per cent.

16. In tea markets, the price of Mombasa black tea dropped from the high levels reached in 2012 and remained relatively low in most of 2013 and 2014. From 368 cents per kilogram in November 2012, the price dropped to 220 cents in May 2014, the lowest level since January 2008, led mainly by ample supplies. However, in early 2014, the Mombasa tea price rebounded to reach 308 cents per kilogram in March 2015, owing mainly to dry weather conditions in growing areas.

Figure VII
Prices trends of selected tropical beverage commodities, January 2009-April 2015

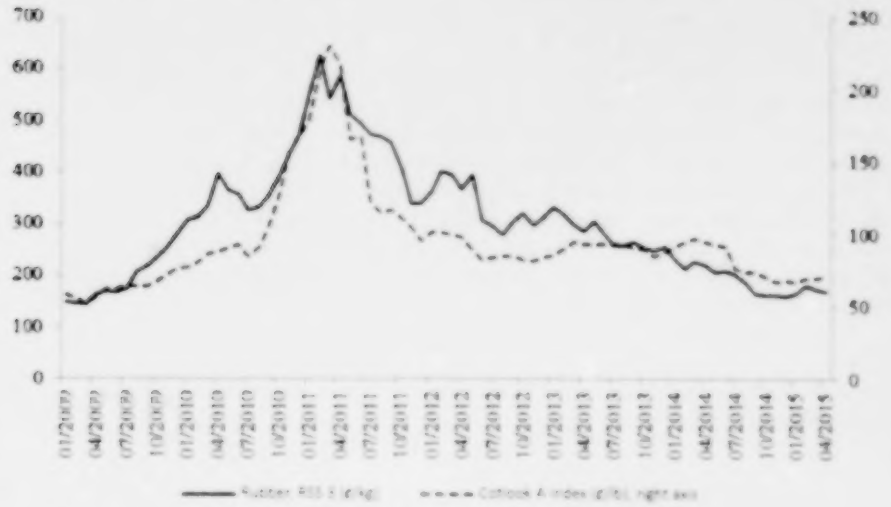


Source: UNCTAD secretariat, based on data from UNCTADstat.

17. In the markets for agricultural raw materials, price trends depend primarily on the global economic situation and supply factors. Agricultural raw material prices have generally been declining from the peaks recorded in 2011. In April 2015, the prices of cotton (Cotlook Index A) and natural rubber (RSS 3) averaged 72 cents per pound and 170 cents per kilogram, respectively, well below the peaks of 230 cents in March 2011 and 626 cents, respectively, in February 2011 (see figure VIII). Lower prices in the markets are owing to a fragile recovery in the global economy and good production and ample stocks carried over from past seasons. If the situation persists, further drops in the prices of agricultural raw materials should be expected.

Figure VIII

Price trends of selected commodities in agricultural raw material markets, January 2009-April 2015



Source: UNCTAD secretariat, based on data from UNCTADstat.

18. In the coming months, prices of agricultural commodities are expected to continue easing; the major upside risk factor remains however the developing El Niño phenomenon, which may disrupt harvests worldwide. Declining prices with short-term fluctuations in agricultural and food commodity markets are eroding farmers' profit margins. That is particularly damaging to vulnerable small farmers in the developing and least developed countries, as they produce most of the agricultural commodities from their countries that are traded on international markets. Appropriate policies should be devised to allow farmers to increase productivity, so that they remain competitive in global, regional and national markets. In particular, they need increased access to low-cost inputs, including seeds and fertilizers, finance and land. They also require an enabling environment with an adequate infrastructure and a sound regulatory framework, which would help them to improve the profitability of their activities. Addressing the constraints on the farmers of developing countries should be considered a way of solving societal problems, particularly poverty and inequality, consonant with the post-2015 sustainable development agenda, of which the motto is "Leave no one behind".

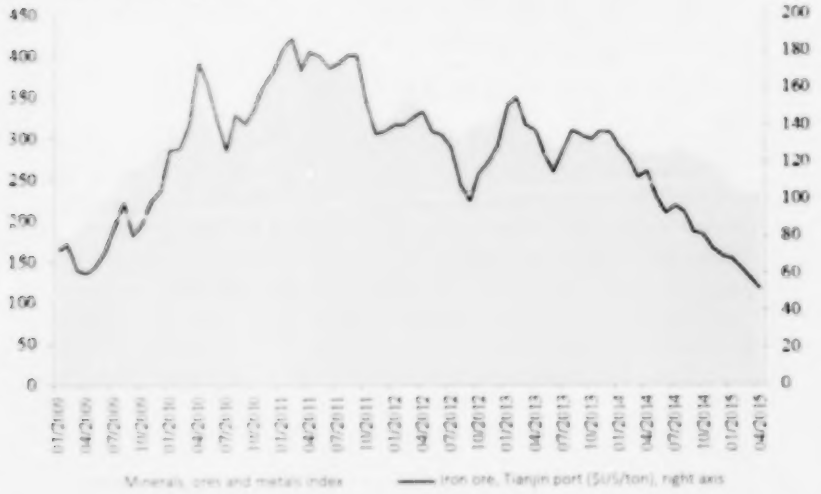
C. Minerals, ores and metals

19. The prices of minerals, ores and metals are sensitive to worldwide supply and to macroeconomic developments in industrialized and emerging economies, particularly in China, which between them account for the largest share of global demand. More specifically, developments in China significantly affect the markets for minerals, ores and metals, as the country accounts for almost half of global metal consumption.

20. Since their peak in 2011, the prices of minerals, ores and metals have generally trended downwards. On the demand side, the bearish markets were underpinned by the fragile world economic recovery, especially in developed economies such as the European Union, a strong United States dollar and low energy prices. Growth deceleration in China and emerging economies also had an important effect. On the supply side, a number of specific markets for minerals and metals are well supplied, with strong production resulting from large investments made during the recent commodity boom in a context of low-cost mining. Moreover, structural economic changes occurring in China, moving from investment-led growth to a consumption-driven economy, combined with the country's objective to achieve a less polluting economic model, have put downward pressure on some base metals such as iron ores and copper. The UNCTAD minerals, ores and metals price index lost 100 points from roughly 340 points in January 2013 to 240 points in April 2015.[4] However, that general trend disguises the performance of individual commodities (see figures IX and X).

Figure IX

Minerals, ores and metals price index (2000=100) and iron ore nominal price, January 2009-April 2015



Source: UNCTAD secretariat, based on data from UNCTADstat.

21. Prices in the iron ore markets fluctuated from late 2011 to late 2013, driven by uncertainty over the economic recovery of global markets. From early 2014, the price of iron ore slumped, mainly driven by a global glut and weak growth in steel production, especially in China. From December 2013 to April 2015, the price of imported iron ore at Tianjin port lost more than half of its value from $136 to $52 per dry ton. Looking forward, low-cost mining from big players in the markets, such as Rio Tinto Group (Australia) and Vale SA (Brazil), along with slowing

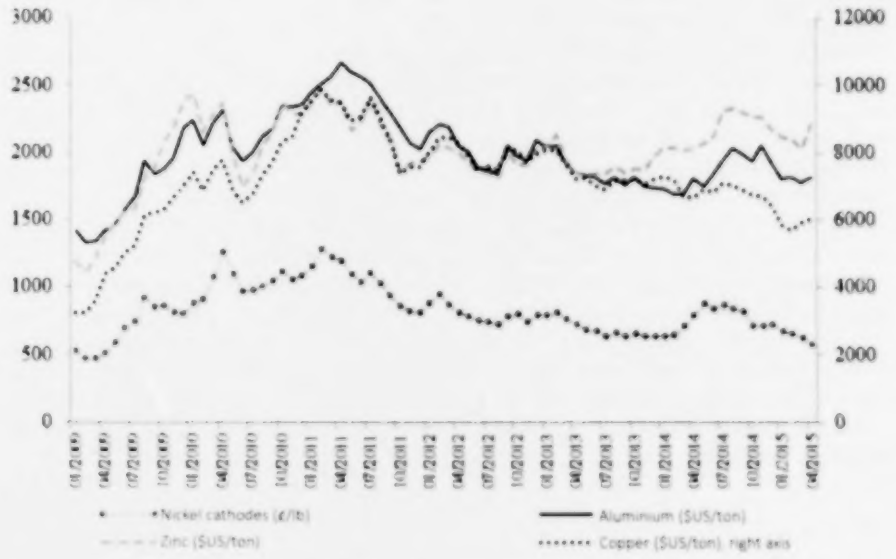
[4] The UNCTAD minerals, ores and metals price index covers copper, aluminium, iron ore, nickel, lead, zinc, tin, phosphate rock, manganese ore and tungsten ore. Gold is not included in the price index.

demand from China and the emerging economies, should keep downward pressure on iron ore prices, unless demand rebounds significantly in the coming years.

22. In copper markets, prices have fluctuated around a generally downward trend since 2011. From a record of $9,867 per ton in February 2011, London Metal Exchange copper prices dropped to an average of $5,701 in February 2015, the lowest level since August 2009. Good production, helped by new supplies coming on stream and coupled with weak demand, notably from the construction and infrastructure sectors in China, contributed to the falling prices. Moreover, demand for substitutes, especially for relatively lower priced aluminium, weighed on the demand for copper, pushing prices further down. Copper prices rebounded in March and April 2015, but new mining projects should help to prevent excessive price surges over the coming years.

23. Prices of aluminium have suffered from oversupply, especially in early 2014. In February 2014, the London Metal Exchange aluminium price averaged $1,694 per ton, the lowest level since June 2009. Thereafter, prices rebounded to average $2,054 in November 2014, owing to a number of factors, including capacity cuts by major suppliers; an export ban on bauxite by Indonesia, a major producer; and recovery in demand, especially in the United States automobile industry. Thereafter, aluminium prices retreated, driven by ample supplies and lower growth in demand. In April 2015, the London Metal Exchange aluminium prices averaged $1,817 per ton.

Figure X
Nominal prices for selected minerals, ores and metals, January 2009-April 2015



Source: UNCTAD secretariat, based on data from UNCTADstat.

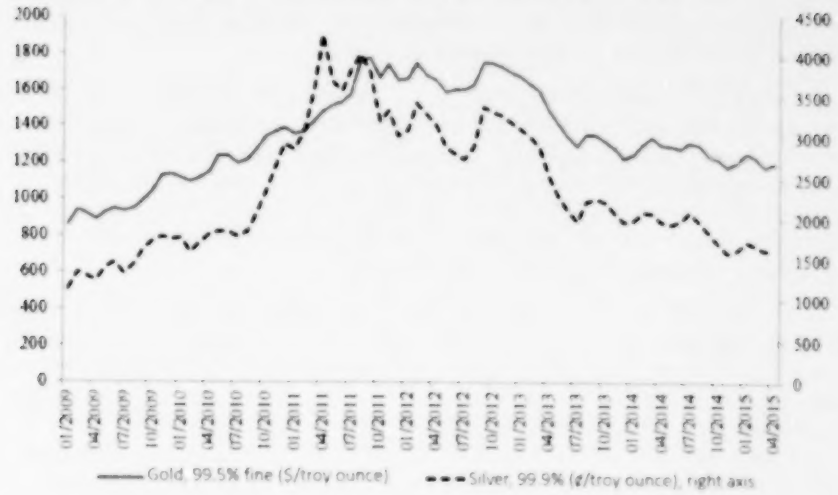
24. The market for nickel, an ingredient used to make steel, was characterized by oversupply and sliding prices in 2012 and 2013. However, the market dynamics later changed, following the enforcement of an export ban of unprocessed ores in January 2014 by Indonesia, the world's leading nickel producer. Concerns over shortages in supply, coupled with speculative buying by financial investors, led to a surge in nickel prices. From January to May 2014, the London Metal Exchange nickel price jumped by 38 per cent from $14,076 to $19,434 per ton, the highest level since March 2012. However, prices trended downwards in the following months averaging $12,780 per ton in April 2015 as China, a big consumer, was able to replace imports from Indonesia partly with imports from the Philippines. The outlook in nickel prices is uncertain and will depend on market fundamentals, especially the capacity of exporting countries such as the Philippines to supply international markets.

25. Zinc prices trended up from mid-2013 to mid-2014, driven mainly by tightened supply and decreasing stocks after the closure of some of the world's largest zinc mines in Canada. In August 2013, the London Metal Exchange zinc price rose to $2,329 per ton, 27 per cent up from its value of $1,836 per ton in July 2013. Thereafter, zinc prices dropped to an average of $2,029 in March 2015, owing mainly to weak demand from galvanized steel producers who account for a large share of global zinc consumption. The outlook for zinc will depend primarily on the extent to which declining production from planned closures of large mines, such as the Century mine in Australia, by the end of 2015 will be offset by production from new mid-size mines and the expansion of existing facilities.

26. Prices of precious metals have decreased over the past two years and are now at lower levels than in 2011 and 2012 (see figure XI). For example, gold prices dropped from $1,747 per troy ounce in October 2012 to $1,287 in July 2013, the lowest level since October 2010. Key driving factors of that bearish trend included sizeable outflows from exchange-traded funds[5] on improved economic prospects in the United States and expectations about the tapering of the quantitative easing programme of the United States Federal Reserve. Thereafter, gold prices have been fluctuating, with a slight downward trend. From July 2013 to April 2015, the price varied between $1,176 and $1,349 per troy ounce. Those swings were led by a number of factors, including global geopolitical risks such as the Syrian crisis; speculation over when the United States would raise interest rates; the fluctuating but generally increasing value of the United States dollar; and imbalances in gold supply and demand. Looking forward, the risks are mainly on the downside in the precious metals markets. Gold and silver prices are likely to trend down in the coming months as the United States dollar is likely to remain strong and interest rates in the United States are likely to be raised. However short-term fluctuations will be observed, owing to geopolitical factors and uncertainty over the global economic recovery.

[5] In July 2013, exchange-traded funds were 33 per cent lower than at their peak level in April 2013.

Figure XI
Nominal prices of gold and silver, January 2009-April 2015



Source: UNCTAD secretariat, based on data from UNCTADstat.

27. Falling prices in the markets for minerals, ores and metals adversely affect commodity-dependent developing countries. They experience worsening fiscal deficits, a decline in foreign exchange revenues and a higher cost of debt in international financial markets, owing to increased sovereign risks. In the coming months, prices for minerals, ores and metals will depend on factors such as market fundamentals, ore grades and energy costs. Most particularly, economic prospects in major metal-consuming countries, especially China, will weigh on demand. The country's economic restructuring may support the prices of metals which are widely used in consumer goods, such as aluminium, zinc, tin and lead, and exert downward pressure on the prices of copper and iron ore.

D. Energy

28. Energy markets have been under pressure since 2013, as a result of growing imbalances between supply and demand and monetary factors. Against the backdrop of increasing production of unconventional oil and lacklustre global demand, energy prices have fallen dramatically, with a drop in the International Monetary Fund (IMF) energy commodity index of 47 per cent between the first quarter of 2013 and the first quarter of 2015.

Crude oil

29. Oil production grew remarkably in 2013 and 2014, increasing by 5.1 per cent. Sixty-three per cent of that increase resulted from the development of unconventional oil production in North America. As new technologies which reduced exploitation costs became available, the number of crude oil rotary rigs in operation in the United States increased by 21 per cent between January 2013 and October 2014, according to figures from the United States Energy Information

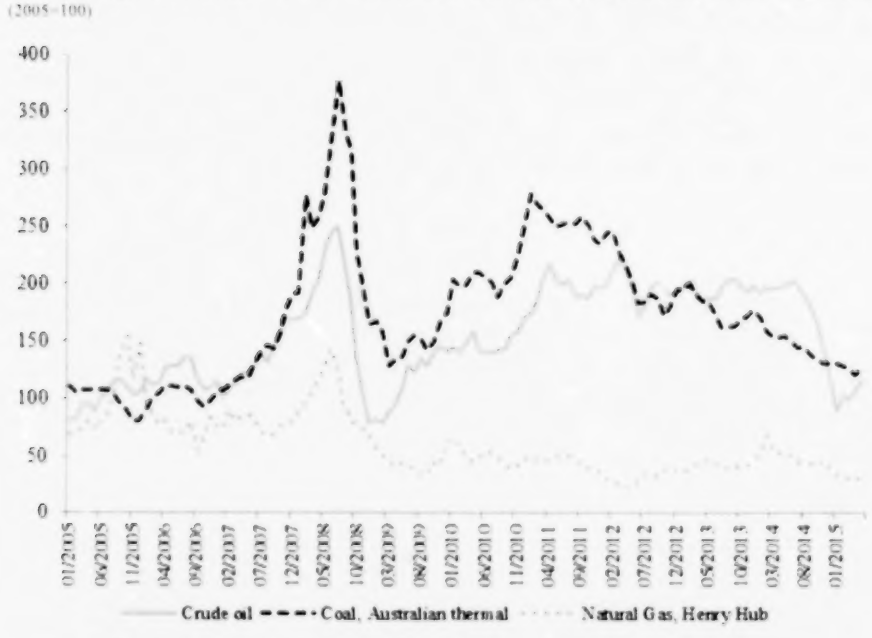
Administration, before dropping by nearly one half from November 2014 to May 2015, owing to collapsing oil prices. In the meantime, demand for oil products increased moderately, growing by 2.8 per cent between the first quarter of 2013 and the first quarter of 2015. Those developments resulted in excess supply, estimated at 1.1 million barrels per day in 2014, leading to a rise in stocks.

30. Oil markets remained fairly stable until the summer of 2014. The price of Brent crude oil ranged between $100 and $115 per barrel for nearly two years in the period prior to mid-2014. It appears that investors did not fully anticipate the radical changes occurring in North American oil production. The effects of the "shale gas revolution" were then offset by a relative decline in production by members of the Organization of the Petroleum Exporting Countries (OPEC) and absorbed by robust demand from emerging economies in Asia.

31. From August 2014 to February 2015, oil prices experienced a steep adjustment, with a drop of 53 per cent in the IMF crude oil index (see figure XII). Among the key factors accounting for the adjustment were the growing imbalances in oil markets. Between the first quarter of 2014 and the first quarter of 2015, global oil production grew by 2.9 million barrels per day, of which 1.6 million barrels per day were produced in North America. On the other hand, oil demand experienced a relatively limited increase of 1.4 million barrels per day. The substantial increase in oil oversupply was also fuelled by the good performance of producers which are not members of either the Organization of Economic Cooperation and Development (OECD) or OPEC and the status quo on OPEC quotas.

Figure XII

Crude oil (petroleum), coal and natural gas price indices, January 2005-May 2015



Source: UNCTAD secretariat based on data from IMF international financial statistics.

32. That downward adjustment led to a drastic cut in investments in oil production, particularly in unconventional oil production. Thus, the number of crude oil rotary rigs in operation dropped to 857 in March 2015, its lowest level in four years. Despite continuous imbalances and rising stocks, the price recovered slightly, owing to market anticipation of a rebalancing of supply and demand based on the cut in investment. The IMF crude oil index rose by 31 per cent between February and May 2015.

33. The economic incidence of lower oil prices remains to be fully evaluated. Some estimates suggest that the global economy should benefit from additional economic growth ranging from 0.3 to 0.7 percentage points in 2015;[6] China might benefit even more. By contrast, developing countries dependent on oil exports are already facing a severe deterioration in their current accounts and refinancing conditions in the capital markets. In Nigeria, for example, the cost of refinancing public debt has dramatically increased, to the extent that debt service costs are expected to represent 22 per cent of the federal budget of Nigeria in 2015, versus 15 per cent in 2014.[7]

Natural gas

34. Due to physical constraints and the cost of liquefying gas, natural gas markets are mostly regionalized, with dissimilar pricing mechanisms. That results in great variations in prices between regions. In Asia, prices are fixed mostly by long-term contracts linked to oil prices and were, until the summer of 2014, among the highest globally. In the United States, market fundamentals determine prices. That is also the case in Europe, as European buyers tend to prefer supply- and demand-based gas pricing to the long-term take-or-pay contracts that guarantee minimum purchases and stable prices for gas.

35. Globally, natural gas prices are following a downward trend owing to several factors. The development of unconventional gas production has pushed down prices in several countries, notably in the United States, Canada and Australia. The natural gas spot price at the Henry Hub terminal in Louisiana, United States, had reached a value of $2.58 per million metric British thermal units in April 2015, its lowest value in more than two years and less than 30 per cent of its value in 2005.[8]

36. Global gas demand experienced a marked slowdown in 2013 and 2014, with an average annual growth of 0.8 per cent compared with 4.1 per cent on average from 2010 to 2012.[9] That was due in particular to the relatively high gas prices in Asia until the oil market reversal in the summer of 2014, against a backdrop of cheap coal and falling costs for renewables. Similarly, in OECD countries, demand for gas in the power sector has been affected by sluggish growth in demand for electricity and the continuous deployment of renewables. In other regions, demand

[6] See Rabah Arezki and Olivier Blanchard, "Seven questions about the recent oil price slump", IMF (2014).

[7] The cost of debt service is to rise by 32 per cent between 2014 and 2015, from $712 million to $943 million according to PriceWaterhouseCoopers in "Nigeria's 2015 budget: fiscal and macroeconomic analyses", available from pwcnigeria.typepad.com/files/pwc_nigerias-2015-budget-bulletin.pdf.

[8] See IMF, international financial statistics. According to the IMF, the natural gas spot price at the Henry Hub terminal in Louisiana averaged $8.86 in 2005.

[9] British Petroleum, "Statistical review of world energy" (2015).

is constrained by the availability of supply. However, the continuous development of the trade in liquefied natural gas is a promising avenue for the integration of gas markets.

37. Lower gas and oil prices should result in a slower expansion of gas production in the coming years, with potentially important effects on upstream investments. That could be particularly harmful for the liquefied natural gas industry, which does not manage to cover the capital costs of new plants at current prices. Nevertheless, gas demand could rebound as a result of lower prices, more specifically in Asia where the competitiveness of gas compared with other fuels has soared with the recent adjustment in oil markets. In the same vein, a number of countries are prioritizing investments in natural gas for its environmental benefits, which should, in the context of efforts to mitigate climate change, reinforce demand for gas in the long term. In China for instance, the intensification of environmental policy should benefit the natural gas industry and could compensate for the effects of slower economic growth and the sharp slowdown in primary energy consumption.

Coal

38. Coal is the second source of primary energy, representing roughly 30 per cent of total primary energy produced. It is mostly used for power generation, producing more than 40 per cent of worldwide electricity. Coal is abundant, cheap, easy to trade, but harmful for climate change mitigation. New technologies allow those environmental effects to be reduced, as well as carbon capture and storage. Nonetheless, their deployment remains very slow, including in plants under construction, which raises serious concerns about the sustainability of policies aimed at closing the "energy gap" in emerging economies.[10]

39. Coal prices have plummeted since 2012. The reference price, Australian thermal coal, declined by 13 per cent in 2013 and 17 per cent in 2014, hitting an eight-year low of $62 per ton in April 2015. While demand in Asian markets remains robust, with 4.4 per cent growth in 2013 and 2014, consumption in OECD economies is declining rapidly, notably in Europe (down 10 per cent), where environmental and economic concerns are depressing local demand. Consumption in North America has slightly rebounded over this period (up 3.5 per cent) but remains below its 2010 value, owing to the substitution of shale gas for coal. Demand in Europe and North America is expected to continue decreasing in the coming years, as energy efficiency and renewable energy production make further progress.

40. Coal production stagnated in 2013 and 2014 but that followed a surge of 8.5 per cent in 2010-2012. As a result, coal markets remain imbalanced, with supply exceeding demand since 2011. However, low prices are contributing to the rebalancing of the market, as the excess supply decreased by 50 per cent in 2013-2014 compared with 2012. Coal production in China decreased in 2013-2014 by 1.5 per cent after the boom in 2010-2012, when it increased by 12.5 per cent. That led to a slight drop in its share in global production from 47.8 per cent in 2012 to 46.8 per cent in 2014, reflecting the willingness of the Chinese authorities to diversify energy production and decarbonize the Chinese economy. By contrast, Australia, India and Indonesia are expanding their productive capacities, with their cumulative market share growing by 12 per cent between 2012 and 2014.

[10] International Energy Agency, coal factsheet (2015).

III. Strengthening coordination among international organizations and other relevant bodies dealing with commodities issues

41. The present discussion builds on the previous reports on world commodity trends and prospects, in which the state of coordination of policy responses addressing excessive commodity price volatility at domestic and international levels has been reviewed. The objective is to identify the main impediments to a well-coordinated response to commodities issues and the key actions needed to further strengthen multilateral coordination. This section of the report covers two groups of institutions. First are the 13 intergovernmental commodity bodies[11] and the Food and Agricultural Organization of the United Nations (FAO) intergovernmental groups.[12] Their role is to provide a forum for discussion, collecting and publishing statistics, providing market information and contributing to the sustainable production of, and trade in, commodities. Second are international development organizations with dedicated commodity programmes in their structures. They include institutions such as UNCTAD, the World Bank and FAO.

A. Early efforts to coordinate international commodity policies

42. The Integrated Programme for Commodities established by UNCTAD in 1976 was the first serious attempt to find an international response to the problems facing developing countries associated with commodity dependence.[13] That was the culmination of efforts undertaken over almost three decades since the agreement on the Havana Charter in 1948. The objective was to reach commodity agreements and establish bodies that would be capable of financing buffer stocks in order to reduce price fluctuations, while ensuring that prices to producers were remunerative. Commodity agreements were expected to include clauses that would allow those bodies to use their own resources, as well as resources borrowed from a new common financing facility to be established for the purpose. In that regard, the Common Fund for Commodities was set up in 1981 but only entered into force in 1989, with its first window designed to finance buffer stocks suspended.

43. The ambition of the Integrated Programme for Commodities was undermined by a lack of financial resources. Originally, it was estimated that in order for the Common Fund for Commodities to be effective in stabilizing the prices of major commodities, it would need about $18 billion. In further negotiations, that amount was reduced to $6 billion and by the time the Fund entered into operation, it only had $400 million. Moreover, there was little political commitment at the

[11] The 13 bodies are the International Cotton Advisory Committee; International Rubber Study Group; International Grains Council; International Lead and Zinc Study Group; International Olive Council; International Coffee Organization; International Cocoa Organization; International Tropical Timber Organization; International Nickel Study Group; International Sugar Organization; International Copper Study Group; International Network for Bamboo and Rattan; and International Jute Study Group.

[12] There are groups for bananas, tropical fruits, citrus fruit, grains, rice, oilseeds, oils and fats, hard fibres, jute, kenaf and allied fibres, hides and skins, meat and dairy products and tea.

[13] The discussion in section III A and in paragraphs 42 and 43 is based on UNCTAD, "Economic development in Africa: trade performance and commodity dependence" (Geneva and New York, 2003).

international level to intervene in commodities markets during a period when liberalization and the free market were the order of the day. As a result, only one new international commodity agreement, the International Rubber Agreement, was negotiated within the context of the Programme. While most existing international agreements were dormant for lack of resources, national schemes aimed at stabilizing prices through national stockpiles and buffer stock facilities were largely dismantled under structural adjustment programmes in the 1980s and early 1990s. That situation weakened global cooperation in the field of commodities, which negatively affected commodity-dependent developing countries.

B. Commodity boom, food crisis and multilateral coordination

44. The commodity boom of the 2000s and the spike in commodity prices in 2007-2008 was interpreted as a wake-up call to refocus the attention of the international community on the need to reinforce multilateral coordination over commodity issues. In particular, it reinvigorated the debate around coordinated action to improve food security and mitigate excessive commodity price volatility. The cost of insufficient coordination among international organizations and Governments was then demonstrated when high food prices sparked riots in many developing countries and led to panic buying and the imposition of export restrictions on food commodities. Those restrictions, in turn, aggravated speculation in the food markets, highlighting again the need for more international coordination.[14]

45. Under the umbrella of the United Nations, several initiatives were launched to increase coherence and coordination among international organizations involved in food security issues. The High-level Task Force on the Global Food Security Crisis was established by the Secretary-General in 2008, bringing together 23 institutions, including United Nations specialized agencies, funds and programmes, the World Bank, IMF, OECD and the World Trade Organization (WTO), to respond to the immediate needs of countries under food stress and offer a broader vision of the policies needed to address long-term food security issues. The High-level Task Force published an updated comprehensive framework for action in September 2010, in which it proposed a twin-track approach to encourage concerted responses to the food price crisis, with actions that would both respond to the immediate needs of vulnerable populations and contribute to longer-term resilience.[15] Furthermore, the Zero Hunger Challenge was set up in 2012 as a collaborative effort between several United Nations and other agencies which share the objective of eradicating hunger in the world.

46. Following its action plan on food price volatility and agriculture, issued by ministers of agriculture in 2011 and based on recommendations by several international organizations,[16] the Group of 20 (G20) established several cross-organizational projects aimed at strengthening market information and transparency, and increasing agricultural productivity. In that context, the G20 created the

[14] The spike in the price of rice in 2007-2008 was largely due to export bans or restrictions by major rice exporters and subsequent panic purchases by major importers.

[15] Available from http://www.un-foodsecurity.org/node/842.

[16] Including FAO, the International Fund for Agricultural Development (IFAD), IMF, OECD, UNCTAD, the World Food Programme (WFP), the World Bank, WTO and the High-level Task Force on the Global Food Security Crisis.

Agricultural Market Information System and its Rapid Response Forum, a collaborative effort by all relevant international institutions to improve the availability of agricultural and food data and encourage policy coordination to reduce volatility in the grain markets. The G20 also created the Global Agriculture and Food Security Programme, a multilateral mechanism administered by the World Bank and supervised by several international organizations.[17] With funding of $1.4bn, its aim is to invest in long-term projects that build resilience and mitigate the effects of food price volatility, while helping to prevent future crises.[18]

47. In 2014, the G20 Food Security and Nutrition Framework was endorsed, building on previous initiatives of international organizations and the broader G20 agenda, and supporting the post-2015 development agenda. The framework responds to the review of opportunities for economic growth and job creation in relation to food security and nutrition co-led by OECD and FAO. It sets out three priority objectives: to increase responsible investment in food systems; increase incomes and quality employment in food systems; and increase productivity sustainably to expand food supply, aimed at incorporating work on food and nutrition security into the core mandate and work streams of the G20, with the objective of taking a long-term, integrated and sustainable "food systems" approach. It also includes a process for implementation, which highlights the need to foster more effective cooperation between international organizations.

48. Those efforts to foster multilateral cooperation on food commodities have delivered mixed results. To some extent, they have contributed to the overall improvement in the functioning of commodity markets since the food crisis of 2008-2009, with a reduction in volatility and more transparent activities. For example, the Agricultural Market Information System has allowed significant progress to be made in data monitoring for four major food commodities: wheat, maize, rice and soybeans. Praised by the G20 as a particularly successful initiative although it only focuses on major producers and consumers, the System provides a monthly overview of the global situation for those four major food commodities in terms of production, supply, utilization, trade, ending stocks, prices and forecasts. Similarly, market information has improved in the energy sector, thanks to coordinated multilateral actions, the expansion of the Joint Oil Data Initiative and its extension to natural gas, with the launch of the JODI-Gas World Database in May 2014.[19]

49. On the ground, food insecurity is diminishing, despite relatively high food prices, with a decline in the prevalence of undernourishment expected to reach nearly 13 per cent between 2009-2011 and 2014-2016. Nevertheless, that general picture hides some critical situations. In Africa, the prevalence of food insecurity has declined rather slowly and has been outpaced by population growth. Hence the absolute numbers of undernourished people rose from 182 million in 1990-1992 to an estimated 232 million in 2014-2016.[20] Moreover, the international response to the

[17] The steering committee is comprised of the World Bank, African Development Bank, Inter-American Development Bank, IFAD, FAO, WFP, International Finance Corporation and the Special Representative of the Secretary-General on Food Security and Nutrition.

[18] As of 30/11/2014, the Programme had received $1.37 billion from 10 donors and had a portfolio of $1 billion of funded projects.

[19] The Joint Oil Data Initiative was initiated in 2001 under the auspices of the United Nations, OPEC, the International Energy Agency and three regional organizations and reinforced with the support of the G20 Energy Sustainability Working Group.

[20] See FAO, *The State of Food Insecurity in the World* (Rome, 2015).

food crisis in the Sahel remains insufficient and the Sahel Crisis Strategic Response Plan, coordinated by the United Nations, is largely underfunded.[21] As a result the number of people experiencing food insecurity in the Sahel almost doubled from 11.3 million in 2013 to 20.2 million in 2014. Furthermore, the various initiatives launched to increase agricultural productivity in fragile economies have produced limited results and those economies remain particularly vulnerable to price fluctuations in agricultural commodities.

C. The way forward: an improved framework for international commodity policies

50. As well as the persisting issue of food and nutrition security, other issues relating to commodity dependence and commodity market instability remain critical. Indeed, the situation of commodity-dependent developing countries is still worrying, as they face serious challenges in diversifying their economies and optimizing local value retention from their commodity sectors. Among multilateral initiatives launched to address those issues is the 2013 OECD-led policy dialogue on natural resource-based development, for which it is too early to evaluate the results. The degree of commodity dependence of the developing countries affected has remained high. In sub-Saharan Africa, commodity exports represented 83 per cent of total merchandise exports in 2013, virtually the same level as in 2011.

51. That proves the need to go beyond food commodities and integrate other development challenges related to commodity value chains. More is needed to rationalize the work of international organizations and other relevant bodies dealing with commodities issues, based on a common understanding of priorities. That would, among other things, require the international community to have a common vision as to how to tackle excessive price volatility and commodity revenue management, as well as the negative effects of commodity dependence on development. Lessons could be drawn from the failure of the Integrated Programme for Commodities when designing an integrated approach which captures the multidimensional nature of the issues and the variety of stakeholders that need to be involved. In that regard, international organizations could play a critical role based on a clear mandate from Governments.

52. The post-2015 development agenda could be the right framework for more effective collective action. In the proposals set out by the Open Working Group of the General Assembly on Sustainable Development Goals (see A/68/970) and endorsed by the Secretary-General in his synthesis report of 4 December 2014 (A/69/700), three goals could form a basis for better coordination among international organizations, focusing on the critical dimensions of structural economic transformation. They include (a) the elimination of hunger by 2030; (b) the improvement of the policy environment for adding value to commodities in the context of inclusive and sustainable industrialization; and (c) the improvement of the functioning of food commodity and derivatives markets. That approach would provide a common vision for sustainable commodity management.

[21] As of September 2014, the programme, which covers nine countries, was only 37 per cent funded.

Eliminating hunger by 2030

53. Given that there are approximately 795 million undernourished people globally, which will represent a 12.9 per cent share of the population in developing regions at the end of 2015, eliminating hunger in the next 15 years will be a major challenge. Several vulnerable regions will rely on international cooperation to meet that objective. That will be the case, for example, with southern Asia, Oceania, the Caribbean and southern and eastern Africa, where the Millennium Development Goals target of halving the proportion of the chronically undernourished was not reached over the period from 2000 to 2015.

54. Three years after the Secretary-General launched the Zero Hunger Challenge, multilateral coordination has improved, building a global movement to end hunger. More than 130 countries have aligned their policies with the Challenge and relevant national policies and programmes are being initiated in more than 40 countries. Furthermore, the 23 United Nations agencies, funds and programmes involved in the High-level Task Force on the Global Food Security Crisis have integrated the vision of the Zero Hunger Challenge into their collective workplans.

55. Nevertheless, more efforts are needed to reinforce coordination and avoid duplication of activities, notably between the United Nations and the Bretton Woods institutions. Those efforts should also be supported by increased resources. Official development assistance (ODA) stagnated between 2011 and 2014 at around $135bn.[22] The share of ODA going to agriculture was only $10.2bn in 2013, down by more than 11 per cent from its 2012 level.

Improving the policy environment for adding value to commodities

56. The food crisis revealed that coordinated action was possible in the context or aftermath of a crisis, provided it was not aimed at directly countering market price fluctuations. International organizations and Governments generally lack the resources and policy space to stabilize commodity markets and reduce excessive price volatility.[23] In contrast, they do have the latitude to improve the policy environment for increasing local value retention from industry, for example from the extractive industries. In that regard, improving multilateral coordination is essential for increasing employment and for technology spillovers from the commodities sector. Partnerships with the private sector and multilateral action can stimulate local participation in commodities value chains and promote upstream and downstream industrialization.

57. Furthermore, reducing the instability in revenues accruing to commodity exporters is another area where the international community could help commodity-dependent developing countries to improve the environment for adding value to commodities. At the multilateral level, coordinated measures could include the adoption of instruments, such as income-support programmes and stabilization funds. At the national and local levels, insurance mechanisms could be developed.

[22] See OECDstat (2015). This flow corresponds to the aid provided by members of the OECD Development Assistance Committee.

[23] Export restrictions, one of the instruments most commonly used by commodity exporters, have an ambivalent record in terms of stabilizing markets. While they helped commodity-dependent developing countries to support producer prices in some cases during the 1980s, they also contributed to episodes of global supply shortages and strong variations in prices, stirring up trade disputes between Governments.

including crop insurance covering yield and price risks. The development of hedging instruments, such as futures and options, or specialized tools specifically designed for small and medium producers in developing countries could also be considered although that would require the development of the necessary expertise and institutions in those countries.

58. International organizations could be central in promoting such tools, given their experience in this area. For example, the IMF is involved in the stabilization of incomes of developing economies exposed to significant revenue fluctuations, notably through its facilities and financing framework for low-income countries. The World Bank has set up the Global Index Insurance Facility, a multi-donor trust fund supporting the development and growth of local markets for weather and disaster index insurance in developing countries, currently covering over 750,000 small farmers. United Nations agencies, funds and programmes could play an important role in the area of economic diversification and industrialization, supporting national and regional strategies, as well as local projects. They could also provide further technical assistance to the intergovernmental commodities bodies, facilitating coordination among exporters. Such a multilateral intervention would need to be integrated into a coordinated framework for international commodities policies.

Improving the functioning of commodities markets

59. The recent food crisis highlighted the importance of improving the functioning of markets but, despite some progress, several commodities markets remain opaque and poorly regulated. In line with the Sao Paulo Consensus adopted at the UNCTAD quadrennial conference held in June 2004, it appears critical to ensure that comprehensive market information is available for all agricultural, minerals, metals and energy products.[24]

60. Furthermore, improved international coordination is also needed to strengthen transparency in global commodity value chains. Several national jurisdictions have introduced legislation requiring the disclosure of payments to Governments by extractive companies, notably in the United States (section 1504 of the Dodd-Frank Act), in the European Union (accounting and transparency directives) and in Canada (Extractive Sector Transparency Measures Act). Pressure is now mounting to broaden the scope of that legislation to cover the whole of the extractive industries global value chain.

61. Strengthening coordination between international organizations and, where relevant, the private sector, would be also critical to improving regulations and transparency in the commodities business, notably in commodities trading. Establishing and enforcing global transparency standards appears to be a necessary step in tackling business malpractices including commodity trade mispricing, bribery and corruption and market price distortions that reduce the share of revenues from commodities for commodity-dependent developing countries and hamper their development.

[24] That could include the extension of the Agricultural Market Information System to food commodities that are not yet covered by it.